GOVERNMENT OF INDIA
DISINVESTMENT
LOK SABHA

UNSTARRED QUESTION NO:1294
ANSWERED ON:26.11.2002
DISINVESTMENT OF BALCO
ALE NARENDRA;RAJO SINGH;VSM (RETD.) COL. CHOUDHARY

Will the Minister of DISINVESTMENT be pleased to state:

(a) whether the attention of the Governemnt has been drawn to the new-items captioned `CAG castigates Disinvestment Ministry on BALCO pricing` appearing in the `Hindustan Times` dated September 18, 2002 and BALCO undervalued by Rs.302 crore appearing in the `Indian Express` dated September 20, 2002;

(b) if so, facts of the matter reported therein alongwith observations made by C&AG;

(c) the reaction of the Government thereto;

(d) whether the value of BALCO was depressed by Rs.302.37 crore by following the discounted cash flow method;

(e) if so, the facts in this regard;

(f) whether there was a deliberate attempt to reduce the value of BALCO by showing custom duty at 20 per cent which led to lower domestic selling prices ultimately resulting in lower revenues during the first two years of the forecast period and hence DCF valuation;

(g) whether the actual custom duty was 27.5% (25% basic levy, 10% surcharge and 4% special additional duty) during 2000-2001;
(h) if so, the details thereof; and
(i) the strategy adopted by the Government for the valuation of BALCO?

Answer

MINISTER OF DISINVESTMENT, MINISTER OF DEVELOPMENT OF NORTH EASTERN REGION AND MINIST COMMERCE & INDUSTRY (SHRI ARUN SHOURIE)

(a) Yes, Sir.

(b) & (c) In October, 2001, the Comptroller and Auditor General made certain preliminary audit observations in its Draft Inspection Report on disinvestment of Government equity in BALCO.Government`s comments thereto have been sent to the office of CAG in December, 2001 for enabling them to finalise their Inspection Report, which is still awaited.

(d) No, Sir. Four valuation methods were used to value BALCO as per the established procedure. Though the DCF method was considered the most appropriate, the valuation of Rs 332 crores to Rs 507 crores obtained through this method was suitably adjusted upwards to set the Reserve Price of Rs.514.40 crore for 51% of the equity of BALCO.

(e) Does not arise.

(f) No, Sir. There was no deliberate attempt to reduce the value of BALCO.The rate of customs duty, excluding countervailing duty (CVD) and special additional duty, was assumed to be an average of 15% over the period 2001-2002 to 2009-2010 for the purposes of calculating DCF in line with the expectations of a progressive reduction and rationalisation of import tariffs.

(g) & (h) The import duty structure on aluminium primary metal on 2nd March, 2001, the date on which 51% Government held equity in BALCO was disinvested was as follows:-

- Basic customs duty: 25% ad valorem
- Additional duty of customs (CVD): 16%
- Special Additional Duty: 4%

(i) For valuation of the shares of BALCO an Advisor was appointed. An Asset Valuer was also appointed for valuing the assets of the company. The reports of the Advisor as well as the Asset Valuer were considered by an Inter Ministerial Evaluation Committee which

set the reserve price for 51% equity of BALCO.The report of the Evaluation Committee was considered by the Inter-Ministerial Group and the Core Group of Secretaries on Disinvestment before the Government accepted the bid price.